

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

*Bill Leonard, Member
State Board of Equalization*

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QUOTE OF THE WEEK

*“Nearly all men can stand adversity, but if you want to test a man’s character, give him power.”
Abraham Lincoln*

AROUND THE STATE

*****BoE Kills Proposal to Help Ordinary Californians*****

I am saddened to report that last week the Board of Equalization killed a proposal that sought to give Californians coming in from other states the same Use Tax exemption available for those traveling into California from foreign countries.

The U.S. Customs law exemption was raised in 2002 to exempt from Use Tax the first \$800 of goods purchased in foreign countries, up from \$400. My proposal would have raised the state’s exemption level -- currently \$400 -- to match the federal level. Californians returning from other states should get the same Use Tax exemption as Californians coming back from other countries.

The Board vote was 2 to 1 – one vote short needed for the BoE to sponsor legislation. Board Member Michelle Steel (District 3) joined me by voting “aye.” Board Member Judy Chu voted “no.” The State Controller’s representative and Board Chair Betty Yee (District 1) did not vote, saying they were neutral.

This is an equity issue. Average Californians who lack the means to fly to foreign countries but rather travel to neighboring states should not be treated like second class citizens compared to those who can afford the luxury of foreign travel. Even travelers from Mexico are treated better.

In addition, the real compliance issue is with large-ticket items. This bill would have allowed BoE auditors and staff to focus on those larger items that actually yield Use Tax revenue. There is virtually zero compliance for the smaller items already. Taking no action basically endorses the idea that regular Californians are criminals.

*****Oil - The Market Works*****

The International Energy Association published a remarkable finding that I only saw in the Wall Street Journal. In 2006, for the first time in 20 years, the demand for oil from developed nations (OECD members) dropped from the previous year.

<http://omrpublic.iea.org/currentissues/full.pdf>

At somewhere along the way to \$77 per barrel, a tipping point was reached where reduced consumption and perhaps interest in fossil alternatives brought the price of crude down. The Wall Street Journal reported anecdotally on the effects: "Saudi Arabia began to quietly cut back its output in April because it couldn't find buyers for all its crude. Iran, OPEC's second largest producer after Saudi Arabia, was forced to store unsold oil in tankers last summer."

I say more than anything this shows the market does work. Not only does \$70-a-barrel oil spur oil companies to explore new areas, it also encourages inventors and capital investors to accelerate their search for alternative fuels and give consumers more choices, all at the same time. This is what markets -- not governments -- do best. And, if an alternative really catches on, like when coal displaced whale oil in the 19th Century, so too the value of petroleum will fall like a rock. It is notable that already the IEA projects that biofuel output will triple over the next five years.

This comes at a time when everybody wants to talk about our addiction to oil and what new laws we need to force people off of it. While an interdiction from Governor Schwarzenegger or President Bush may have some short-term effect, the real catalyst for lower consumption of oil is the market.

*****Workers' Comp Success*****

I was pleased to read the news that 70% of employees declared permanently but partially disabled from Jan. 1, 2005, to June 30, 2006, returned to work. Getting back to work should always be the goal of the workers' compensation system. We tried for this goal in 1993 and 1995, and the 2004 reforms seem to have made good progress. It is too early to evaluate the overall success of the 2004 reform package, but this is an impressive early indication and I hope there will be more good news to follow.

*****Shut It Down*****

More than 20 years ago I began exploring the idea of a high-speed train between Southern California and Las Vegas. I was intrigued by the technology, the positive implications for traffic and air quality, and the opportunity to test a mode of transport that has been successful in Europe and Japan. The first principles were that the train be privately owned and financed, and designed to compete with commercial aircraft. Unfortunately, those who like big government took over, those principles were tossed by the wayside, and a state commission to study options and find the financing to build the train was created over my opposition. Two decades have passed since I started studying the idea and more than a decade has gone by since the High Speed Rail Authority was created. There is still no reason for government to go into the risky business of competing against air travel.

This year's proposed state budget cuts funding for the High Speed Rail Authority from \$14 million to \$1.2 million. That means the Authority will stay open, but not be able to do anything. Not that it has done much anyway. The Authority's executive director, Mehdi Morshed, responded to the budget ax by saying, "There's really no public purpose for me and my staff to be in office unless you want to move forward with the project... If you don't want to move forward with the project, then close it down and save yourself some money." This may be the first time I have agreed with Morshed: close it down.

ISSUE FOCUS

*****Fitness Tax Credit*****

California is engaged in a debate about government sponsored health plans. Besides creating government programs, another means of directing social policy is through tax credits. As the Governor and the Legislature discuss health care here, they could look into what is being proposed in Canada: a non-refundable tax credit of up to \$500 paid by parents who register a child in an eligible physical activity program. The government does not care whether the program is basketball or dance, just so that it contributes to cardio-respiratory endurance, plus either muscular strength, muscular endurance, flexibility or balance. For more information, go to:

www.cra-arc.gc.ca/fitness

MISCELLANY

*****A Good Read*****

People of my generation remember vividly the news coverage of the Apollo space program and our nation's effort to put a man on the moon. Younger generations perhaps gleaned some of that experience by watching the movie "Apollo 13." A more thorough scientific, social and political analysis of the mission is available by reading a "Man on the Moon" by Andrew Chaikin. For those that prefer video the book was converted to one of the best documentaries ever called "From the Earth to the Moon". It begins by reminding us of President Kennedy's startling announcement in May of 1961: "I believe this nation should commit itself, before this decade is out, to landing a man on the moon and returning him safely to the earth." From there, the book flows well, interweaving the personal stories of the astronauts with the physical challenges of the task. Chaikin reviews all the missions and shares behind-the-scenes events and impressions from the astronauts, who, for the most part, have not chronicled their experiences themselves. One of the impressions one takes away from this book is the enormity of the challenge President Kennedy laid before the nation on that spring day. I cannot help but wonder if taking up such a challenge is even possible this day. We seem, as a nation, to have forfeited our desire to overcome odds and achieve seemingly impossible tasks. We seem unwilling to unite together to achieve something bigger than ourselves. I hope the younger generations who read Chaikin's book will be inspired to the greatness of his topic and the people who accepted President

Kennedy's challenge. In their life's work we can find greater meaning as a people, as a nation and as individuals.

*****New Citizenship Test*****

To see the official answers to the pilot U.S. citizenship questions below, go to
<http://www.uscis.gov/portal/site/uscis/menuitem.5af9bb95919f35e66f614176543f6d1a/?vgnextoid=dcf5e1df53b2f010VgnVCM1000000ecd190aRCRD>

81. Who can vote in the U.S.?
82. Name two ways that Americans can participate in their democracy.
83. When is the last day you can send in federal income tax forms?
84. Name two of the natural, or inalienable, rights in the Declaration of Independence.
85. Who wrote the Declaration of Independence?
86. When was the Declaration of Independence adopted?
87. Name one reason why the colonists came to America?
88. What happened at the Constitutional Convention?
89. Why did the colonists fight the British?
90. When was the Constitution drafted?

BOE AND LEGISLATIVE DATES

February 12, 2007 --- Abraham Lincoln's Birthday.

February 19, 2007 --- George Washington's Birthday observed.

February 23, 2007 --- Last day for bills to be introduced (J.R. 61(a)(1), J.R. 54(a)).

February 27-28, 2007 --- Board of Equalization meets in Culver City.

February 27, 2007 --- Business and Property Taxpayers' Bill of Rights hearings in Culver City at approximately 1:30pm.

March 1, 2007 --- Board of Equalization meets in Culver City.

March 20, 2007 --- Board of Equalization meets in Sacramento.

March 20, 2007 --- Business and Property Taxpayers' Bill of Rights hearings Business and Property Taxpayers' Bill of Rights hearings in Sacramento at approximately 1:30pm.

March 29, 2007 --- Spring Legislative Recess begins upon adjournment (J.R. 51(a)(2)).

March 30, 2007 --- Cesar Chavez Day.

April 9, 2007 --- Legislature reconvenes from Spring Recess. (J.R. 51(a)(2)).

April 24-25, 2007 --- Board of Equalization meets in Sacramento.

April 27, 2007 --- Last day for policy committees to hear and report fiscal bills for referral to fiscal committees (J.R. 61(a)(2)).

NOTABLE DATES/ HISTORY

February 5, 1917 --- The Immigration Act was passed, requiring a literacy test for all immigrants.

February 5, 1994 --- Medgar Evers's murderer, white separatist Byron de La Beckworth, was convicted to life in prison for the 1963 shooting.

February 6, 1899 --- The Spanish-American War peace treaty was ratified by a margin of just one vote after an intense fight in the United States Senate.

February 7, 1839 --- Henry Clay declared in Senate, "I had rather be right than president."

February 7, 1949 --- Joe DiMaggio became the first \$100,000 per year baseball player (New York Yankees).

February 7, 1990 --- Hundreds of thousands of gallons of crude oil spilled off the California coast near Huntington Beach, from the tanker, American Trader.

February 8, 1915 --- The silent motion picture "The Birth of a Nation" (also known as "The Clansman"), directed by D. W. Griffith, opened in Los Angeles.

February 8, 1910 --- The Boy Scouts of America was incorporated.

February 8, 1926 --- Walt Disney Studios was formed.

February 8, 1977 --- A 5.0 earthquake hit San Francisco.

February 9, 1825 --- John Quincy Adams was elected president by the House of Representatives when no candidate received a majority of electoral votes.

February 9, 1864 --- Susan B. Anthony and Elizabeth Cady Stanton delivered more than 100,000 signatures to the U.S. Senate in support of Republicans' plans for a constitutional amendment to ban slavery.

February 10, 1971 --- An earthquake in the San Fernando Valley killed 65 people and caused more than half-a-billion dollars in damage.

February 10, 1981 --- A fire at the Las Vegas Hilton claimed eight lives and injured nearly 200 people.

February 11, 1752 --- Benjamin Franklin helped establish the Pennsylvania Hospital, which was the first hospital in what later became the U.S.

February 11, 1812 --- Massachusetts Governor Elbridge Gerry signed a law that redistricted the state to the advantage of his political party, causing opponents to coin the term “gerrymandering.”

February 11, 1936 --- Pumping began to build Treasure Island in San Francisco Bay.

February 12, 1809 --- Abraham Lincoln was born.

February 12, 1870 --- Women residents of the Utah Territory were granted the right to vote.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate’s office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

HOW TO CONTACT ME

Bill Leonard, Member
State Board of Equalization, Second District
Email: bill.leonard@boe.ca.gov

Northern California Office:

400 Capitol Mall, Suite 2340
Sacramento, CA 95814
Telephone: (916) 445-2181
Fax: (916) 327-4003

Southern California Office:
4295 E. Jurupa Ave., Ste. 204
Ontario, CA 91761-1428

Telephone: (909) 937-6106
Fax: (909) 937-7044